



Fairfax County

Internal Audit Office

**Fairfax County Fire and Rescue Department
Grants and Donations Audit
Final Report**

November 2017

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Introduction

The Fairfax County Fire and Rescue Department (FRD) is responsible for training firefighters to provide a full complement of fire suppression, technical rescue, swift water rescue, hazardous materials, and emergency medical services, including basic and advanced life support and emergency medical transportation. Many of these initiatives are funded through grants and donations. During FY 2016, FRD was awarded over \$14.3 million in grant funds. Grant funding is used to support Urban Search and Rescue personnel, purchase personal protective equipment and emergency response vehicles, as well as to support firefighter training and education.

Executive Summary

Our audit focused on determining the adequacy of controls over FRD's grant funds processing to ensure they were properly accounted for, reported on, and spent. Our audit population excluded the grants that were audited as major programs by the County external auditors in FY2015 and FY2016. Overall, we noted that grant funds were used in accordance with grant requirements; billing and collection of grant funds was done in a timely manner; grant funds were properly safeguarded; and grant reporting was done in a complete and timely manner. Additionally, we reviewed processes and procedures to determine the adequacy of FRD's controls over spending, accounting, and reporting of donated funds. We noted that accounting, reconciliation and reporting of donated funds was proper. However, we did note the following weaknesses in controls over processing of grant funds and donations where compliance and controls could be strengthened:

- Our testing of records related to FRD grant expenditures revealed instances of improper or insufficient supporting documentation, and improper accounting classification and retention of documentation.
- The FRD Urban Search & Rescue (US&R) Division was not recording receivables in FOCUS for grant billings, as required by the County policy.
- Our testing of donation receipts and expenses noted instances of non-compliance with County and department policies in the areas of approvals, accounting and safeguarding of donated funds.

Scope and Objectives

This audit was performed as part of our fiscal year 2016 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit covered the period

July 1, 2015, through June 30, 2016. The objectives of the audit were to determine that:

- Grant funding was used in accordance with grant requirements.
- A transparent audit trail existed documenting how grant funds were expended.
- Billing, collection and processing of grant funds due were done in a timely manner.
- Adequate supporting documentation for expenditures to evidence propriety of grant expenditures and ensure reimbursement was available.
- Accounts receivables were set up in the financial system for reimbursable expenditures, as required by County policy.
- Controls over safeguarding of funds received were adequate.
- Grant reporting was done in a complete and timely manner.
- Controls over spending, accounting for and reporting on donated funds were adequate.

Methodology

Our audit methodology included interviewing management and staff to obtain an understanding of internal controls over grants and donations, completing an internal control questionnaire, developing a risk assessment, and detailed testing of various sample transactions. We also evaluated the processes for compliance with sound internal controls, County policies, departmental policies and procedures, and state and federal regulations. Our audit did not examine the system controls over purchasing, financial, and payroll applications. Our transaction testing did rely on those controls; therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of transaction data may have been erroneous.

The Fairfax County Internal Audit Office (IAO) is free from organizational impairments to independence in our reporting as defined by Government Auditing Standards. We report directly and are accountable to the County Executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the County Executive and the Board of Supervisors, and IAO reports are available to the public.

Findings, Recommendations, and Management Response

1. Grant Expenditures - General

Our testing of records related to FRD grant expenditures revealed instances of improper or insufficient supporting documentation, and improper accounting classification and retention of documentation. We noted the following specific issues:

- a. Appropriate general ledger account classification was not used to book some expenses. For instance, tuition expenses totaling approximately \$84K for Fire Programs Fund and \$9K for Four-for-Life grants were charged to

miscellaneous travel instead of tuition or certification. In addition, purchase of trauma life support text books for \$557 were charged to office supplies instead of educational supplies.

Note: Internal Audit verified that FRD corrected this item during the course of our audit. No follow-up is needed for this item.

- b. Two expenses totaling approximately \$7K were wrongly charged to Four-for-Life grants instead of the Fire Programs Fund grants.

Note: Internal Audit verified that FRD corrected this item during the course of our audit. No follow-up is needed for this item.

- c. In three of 26 (12%) expenditures tested for the Fire Programs Grant Fund, the grant number was not included on the supporting documentation to ensure completeness of documentation and adherence to best business practices.
- d. The Four-for-Life grant award documentation for program year 2014 was not available for our review. Per FRD, the Office of Emergency Medical Services (OEMS), County Executive's office (CEX), or Department of Management and Budget (DMB) did not have the document on record. FRD incurred expenses totaling approximately \$439K in FY16 under this award; however, the only document OEMS had on record was an extract from their G/L indicating the amount received by FRD for program year 2014. The grant award documentation was available for all prior and subsequent years.

According to the County Financial Policy Statement (FPS) 700 – *Grants or Cooperative Agreements*, departments receiving grants shall initiate and maintain the financial administration of grant expenditure and revenue transactions in accordance with county, state, federal and grantor regulations; ensure that all expenditures and revenues have been posted to the correct accounting classification, maintain and retain adequate records to facilitate the audit of any grant program.

Failure to follow county, state, federal or grantor regulations affects the integrity of grants, and increases the risk of losing future funding.

Recommendation: We recommend FRD adhere to the County policy to properly review transactions for accuracy, adequate supporting documentation, proper accounting classification, maintenance, and retention of records to strengthen controls over grant transactions.

Management Response:

Part 1c: All the purchases cited in this finding were related to one large purchase with a number of funding sources. Fiscal Services maintained a tracking sheet that was attached to the package given to Resource Management. Because the grantor did not require that information in the package, the spreadsheet was not scanned

so was not included in the package provided Internal Audit. It is FRD Fiscal Services and Resource Management's normal practice to scan the FRD-10 (Purchase Request Form) that includes funding source information. In the future, when multiple funding sources are documented outside the FRD-10 Form, Resource Management will include documentation in the scanned package and Fiscal Services will collaborate with Resource Management to ensure they are aware of these purchases. This item was implemented on October 24, 2017.

Part 1d: It is the Fiscal Services' normal practice to ensure a hard copy of the grant award letter is filed with the grant documents and an electronic copy is made and saved in the Fiscal Services shared drive. DMB now requires copies of award letters before budget authority is approved, so this will not be a recurring issue. Files are now reviewed by the fiscal administrator or division director to ensure all necessary documents are included in grant award files. This item was implemented on October 24, 2017.

2. Grant Expenditures – FRD Resource Management

We noted issues related to grant expenditures for which we were informed that the Fire & Rescue Department Resource Management Division was responsible. The following were the specific issues:

- a. For Fire Programs Fund grant, in 14 out of 16 (88%) expenditures involving receipt of goods, a goods received report signed by the receiver or packing slip from vendor was not available to confirm that goods were actually received and at the correct location, and goods were inspected by FRD to be accurate. For some of the purchases, there was no receiver signature and a generic rubber stamp was used to indicate physical receipt of goods purchased. In addition, three of five (60%) Four-for-Life grants expenditures involving receipt of goods did not have a goods receipt report signed by receiver or packing slip from vendor to indicate the accuracy of the quantity received and the receipt location.
- b. For the Fire Programs Fund grants, a down payment of approximately \$175K for a fire station alerting system was expensed to the computer services account instead of being capitalized.
- c. An expense related to Fire Programs Fund grants incurred in December 2015 for the purchase of a heavy duty pumper was charged to construction equipment acquisition with a WBS element, but not assigned an asset number. Shortly after our observation, FRD contacted DPMM to assign an asset number. However, we have not received a confirmation of the number to date. The total cost of the equipment including a pre-payment was approximately \$787K.

According to the County Financial Policy Statement (FPS) #700 – *Grants or Cooperative Agreements*, departments receiving grants shall initiate and maintain the financial administration of grant expenditure and revenue transactions in

accordance with county, state, federal and grantor regulations; ensure that all expenditures and revenues have been posted to the correct accounting classification, maintain and retain adequate records to facilitate the audit of any grant program.

Failure to follow county, state, federal or grantor regulations affects the integrity of grants, and increases the risk of losing future funding. Improperly processing and recording capital equipment decreases its accountability. And, lack of verification of goods receipt increases the risk of payment for goods not received.

Recommendation: We recommend that FRD fiscal services work with their Resource Management Division (RMD) to ensure grant expenditure transactions are properly supported, accounted for, and recorded. And, FRD fiscal services should monitor grant transactions processed by FRD RMD and notify them if corrections are needed.

Management Response:

Part 2a: FRD Resource Management Division will update the “Date Received” stamp to include a “By” block for initials/signature of the receiver of goods. The initials and date stamp will be posted to the shipping documents once the goods have been inspected and verified against the purchase documents. Additionally, Logistics receiving staff were trained on October 10, 2017, to begin manually adding a signature/initial to the shipping papers when applying the current stamp. In the case of p-card point of sale (POS) purchases or on-line p-card orders, Resource Management will ensure the goods are received and require the purchaser to verify by signing and dating the POS receipt or packing slip when on-line goods are delivered. Training will be delivered in conjunction with refresher for p-card users training scheduled in the near future. Management anticipates completing this action by December 31, 2017.

Part 2b: FRD Purchasing often seeks the Department of Materials Management (DPMM)’s guidance regarding the appropriate capitalization of equipment but this particular purchase requisition was not formally reviewed by DPMM since it was incorrectly interpreted as an operational expense. Upon FRD Purchasing’s initial review of the requisition, there were no equipment items listed on the quote that exceeded capitalization threshold of \$5K. Subsequent discussions with DPMM’s accountable equipment analyst have reminded FRD Purchasing to consider items like system upgrade, even in the absence of tangible equipment that exceeds \$5K, as a capital expense. The FRD purchasing manager will meet with DPMM’s accountable equipment analyst to review the appropriate classifications of what should be capitalized to ensure their appropriate review for future orders. Management anticipates completing this action by December 31, 2017.

Part 2c: With the transition to FOCUS the ability to purchase capital equipment using multiple funding streams across multiple funds became problematic, making it difficult to assign an asset number for these types of purchases, at the time purchase order is cut. In a September 2016 email FRD’s DMB grants budget

analyst apprised FRD of an audit performed by the FOCUS Business Support Group (FBSG) on capital spending that discovered purchased assets were not being properly accounted for at the county level where asset numbers were assigned. Although assigning asset numbers is not within FRD Fiscal Services' purview, since becoming aware of the county's asset tracking issue, FRD has worked closely with DPMM, DOF and DMB to develop a method to assist FBSG with more accurately tracking capital purchases, and has been using WBS elements since that time to assist with those efforts. The FOCUS asset number for this vehicle is 14003216. This item was implemented on October 24, 2017.

3. Grant Receivables

The FRD Urban Search & Rescue (US&R) Division was not recording receivables in FOCUS for grant billings. FRD informed IAO that FEMA's Payment and Reporting system provided reimbursement of funds within 24 hours after submission of payment claims.

According to the County Financial Policy Statement (FPS) 700 – *Grants or Cooperative Agreements*, departments must create an invoice and set up a receivable for all billable grant reimbursements. Departments must use the FOCUS Accounts Receivable module to bill the grantor whether or not the FOCUS invoice will be used for actual billing. A grantor's specific form may be used to supplement the billing. The information contained in the invoice is critical to help identify incoming wires of grants received by the DOF-Revenue Team. Any exception must be approved in writing by the Director of Finance.

Unrecorded receivables can result in uncollected funds, understated receivable balances, inaccurate financial reporting and decreased accountability for effective accounts receivable monitoring.

Recommendation: We recommend the US&R Division record receivables for all billings for grant expenditure reimbursements as required by the County policy.

Note: Internal Audit verified that FRD implemented this recommendation during the course of our audit. No follow-up is needed for this item.

4. Donation Receipts

Our testing of FRD gift fund receipts for fiscal year 2016 noted instances of non-compliance with County and department policies, in the areas of approvals and safeguarding of donated funds. Specifically, our audit testing revealed the following exceptions:

- a. **Safeguarding and Posting of Donated Funds:** For all donation checks received by FRD selected for testing, the days between check date and deposit to bank date ranged between 6 and 56 days, exceeding the County requirement of depositing funds no later than the next business day after the receipt of funds. One of the checks for \$25,000 dated June 26, 2015, was

deposited on July 31, 2015. In the absence of a check register, we could not determine when the check was actually received by FRD. If the check was received before June 30, the deposit and revenue could be recorded in the wrong fiscal years.

- b. **Approvals for incoming donations:** None of the four receipts of \$5K or more were approved by the County Executive, as required by FRD SOP for Monetary Donations.

County's Financial Policy Statement (FPS) #450 – *Gifts and Donations*, requires that all agencies accepting monetary gifts adhere to FPS #470 – *Processing Monetary Receipts*, which requires all monetary receipts be deposited to the County's bank accounts no later than the next business day after receipt of funds. This ensures loss prevention, improved cash flow, accurate cash forecasting, facilitation of bank reconciliation, effective management of County's investment portfolio, and increased interest from pooled cash. Further, FRD must adhere to their SOP # 01.05.06 – *Monetary Donations*, which requires that acceptance of all donations of \$5K or more be approved by the County Executive.

Failing to comply with county and department policy does not reflect good financial stewardship toward county funds and may create a negative impact on the program as well as negative publicity for the county.

Recommendation: We recommend that FRD develop departmental policies and procedures for donated funds collected at fire stations and other locations that include logs for cash receipts and timeframes for when funds should be delivered to FRD fiscal services for deposit. FRD should work with the Department of Finance to request an approved waiver from FPS #470 for areas where it is not operationally feasible to comply. Additionally, FRD should update their departmental policies regarding the thresholds for County Executive approval for donations.

Management Response:

Part 4a: During the audit, FRD Fiscal Services restructured the donation receipt process, putting in place a more efficient workflow that allows a one business day turn-around from the time FRD Fiscal Services receives the donation to the time it is deposited in the bank. Donations are tracked on a spreadsheet log noting the donor's name, date FRD Fiscal Services received the donation, check date, deposit date and date acknowledgement letter is sent. FRD donations may be received at any of over 40 FRD facilities. Given the 24/7 operation and remote locations of some facilities, it is impossible to meet the time deadlines referred in the county policy. Currently, FRD is in the process of working with DOF to receive approval of a waiver. Once the waiver is approved, FRD's internal donation policy will be updated to reflect approved timeframes for when funds must be delivered to Fiscal Services and how to properly log donations at FRD locations. Management anticipates completing this action by December 31, 2017.

Part 4b: It is not the county policy to seek County Executive approval for cash donations of \$5K or more. FRD's internal donation policy with that directive is outdated and will be amended to align with county policy. Management anticipates completing this action by December 31, 2017.

5. Donation Expenses

Our testing of gift fund expenses for fiscal year 2016 noted instances of non-compliance with County and department policies in the areas of approvals and accounting of donated funds. Specifically, our audit testing revealed the following exceptions:

- a. **Expenditure Approvals:** In nine out of 15 (60%) expenditure transactions, either the Fire Chief approval or the Business Meal Certification form was done **after** the expense was incurred, increasing the risk of incurring unauthorized expenses. One of those nine transactions had meal receipts dated **after** the event took place. FRD verbally explained that the event was postponed.
- b. **Split Purchase:** We noted FRD created a split purchase transaction for \$4,013 using donated funds to circumvent the county p-card limit. The supporting documentation did not indicate that DPMM was notified about the purchases.

All county agencies that accept, process and dispose of gifts are required to abide by the county's Financial Policy Statement #450 – *Gifts and Donations*. Further, FRD must adhere to their SOP # 01.05.06 – *Monetary Donations*. Both policies require that expenditures of donated funds must be made in compliance with the County's purchasing guidelines.

Failing to comply with county and department policy does not reflect good financial stewardship toward county funds and may create a negative impact on the program as well as negative publicity for the county.

Recommendation: We recommend that FRD remind staff of county and department policies regarding pre-approval of donation expenses to strengthen controls over and adherence to them. Additionally, adequate details should be included in the expense justifications. Finally, FRD should contact DPMM when emergency split purchases occur.

Management Response:

Part 5a: The majority of business meals are purchased utilizing the p-card. FRD is in the process of refreshing staff on the appropriate use and necessary documentation required when using a county p-card. The advance Business Meal Certification process and Fire Chief Approval will be covered in that refresher training. Staff will be re-trained on the need to get pre-approval for meal purchases to ensure they align with the guidelines of the funding source from where they will be purchased, and that detailed justifications are needed. The Business Meal Certification form has been updated to provide more guidance and additional

space to provide appropriate justifications. Regarding the event noted as having receipts dated after the event took place, FRD staff provided information to IAO that this event was postponed due to a USAR deployment; however, the Business Meal Certification date was not updated to reflect the new date. FRD does acknowledge the documentation caused confusion, and in the future will update Business Meal Certifications if the date of an event is changed. Management anticipates completing this action by December 31, 2017.

Part 5b: The event for which the p-card was used occurred after regular business hours and the p-card administrator could not be reached to raise the card transaction limit. The person using the p-card notified the FRD p-card administrator. There was no documentation attached to evidence that FRD staff notified DPMM, and the p-card user is now retired, therefore, no documentation can be produced to demonstrate whether FRD staff notified DPMM. It is the policy of FRD staff to notify DPMM of such exceptions. The p-card training refresher will cover the topic of split purchases and what to do in an emergency. Resource Management staff have been reminded to follow the notification policies for split purchases. Management anticipates completing this action by December 31, 2017.